

A PLAN

FOR A

DOMESTIC CURRENCY,

RENDERED INDEPENDENT OF THE

FOREIGN EXCHANGES,

AND

MEASURED IN STANDARD GOLD.

BY

A BANKER.

LONDON:

PRINTED AND PUBLISHED BY LETTS, SON & STEER,
8, ROYAL EXCHANGE.

PRINTING OFFICE, 21, QUEEN STREET, CHEATSIDE.

1847.

September 29th, 1847.

To the Right Honourable
LORD JOHN RUSSELL.

MY LORD,

I take the liberty of once more addressing your Lordship in reference to the fundamental error made in the Bank Charter Bill, in not treating Gold as a commodity in accordance with Sir Robert Peel's declaration of the 6th May, 1844.

My enclosure is dated the first of July, the day on which it was written, but has not been forwarded until I had consulted with Merchants, Bullion-dealers, and others, to ascertain if my views were just.

We are now in the midst of another fearful crisis, and if it be overcome, it will be followed by another and another until the great mercantile and manufacturing interests of the Country are destroyed.

I have the honor to be,

MY LORD,

Your Lordship's obedient Servant,

* * * * *

(ENCLOSURE)

A PLAN

FOR A

DOMESTIC CURRENCY,

ETC. ETC.

THE occurrence of the recent Monetary Crisis, wherein the prosperity of this Country has been in most imminent jeopardy, and which still paralyses the energy of commerce, has excited the keenest scrutiny into the causes of the disaster. Many reasons have been assigned, but, in my opinion, none with so much truth as the financial acts of the Legislature. Almost all persons who have thus accounted for the national sufferings, have joined in condemning the Bank Charter Bill of 1844. I, too, disapprove of that measure, yet I maintain that the principles upon which Sir R. Peel professed to proceed are right but that these principles are not carried out in the Bill.

In his speech on May 6th, 1844, Sir R. Peel stated, that gold being the least fluctuating com-

modity and the universal equivalent he would continue it as the measure of value and treat it as all other commodities are treated. The profession is good, had he taken so much gold as was required for a measure of value, and left the remainder to obtain the market price he would have acted up to his principles. I proceed then to explain—

1st. How a requisite amount of domestic currency may be supplied.

2d. How it may be maintained unaffected by the Foreign Exchanges, and

3d. How the necessary sum in gold is to be provided.

1st. The first object can be effected by the establishment of a Bank issuing notes having twelve months to run and then payable in ounces of gold; the pound sterling being $\frac{1}{4}$ oz. of gold.

Twelve months after date I promise to pay to Bearer One thousand pounds (i. e. 250 Ounces of standard Gold) value received.

£1000:0:0 sterling.

A. B. Cashier.

Notes upon the quarterly sum due by the public in Taxes, say 13,000,000, might be issued quarterly in payment of the public dividends and current

expenses of the Government, and a further sum of 10,000,000, *more or less*, in notes, might be issued to the London Bankers for the discount of bills not having more than three months to run, which notes would be returned within three months in due payment of those bills. Hereby would be established a circulation of about 23,000,000, I mean such an amount of circulating medium as experience would dictate to be necessary for the requirements of the Country. This operation would have to be repeated every three months.

2dly. This currency would be independent of the Foreign Exchanges.

For the contemplated Bank would not have the functions of bullion-dealers, as is now the case with the Bank of England. Hence gold, which in the usual course of trade has a tendency to flow into England, would be bought by the bullion-dealers, and be in turn sold by them to the merchants whenever it should be required for export in the balance of trade. The demand for gold from the bullion-dealers would accordingly enhance its price, and render it dearer to the foreign merchant, when he might require it, than our manufactured goods. He would thus be induced to accept manufactures in place of gold, with which he could trade, if so disposed, and realise a profit unattainable if he had taken

gold; and the export of manufactures would greatly benefit the British producers. Also, in the proposed system, the bank-note cannot be depreciated. For, suppose that, owing to large purchases of corn or any other import, gold is in demand, the bullion-dealers will endeavour to increase its price, but in this case, if they succeed in augmenting the price beyond £4 per oz., I propose that the Bank should charge more than $\frac{1}{4}$ per cent. for discount of bills (which I would have to be their minimum rate) say to $4\frac{1}{2}$ or 5 per cent.

The price of gold, then, being raised, the representative of gold, the bank-note, becomes affected, yet it is not depreciated, as is seen by considering the similar and even identical case of a dock-warrant for goods. If a dock-warrant for 50 hhds of sugar be worth £1000, and sugar rise in value 10 per cent., the warrant becomes worth £1100. A bank-note of £1000 is a warrant for 250 oz. of gold, which, at £4 per oz. is worth £1000; now, if gold rise 10 per cent. in value, i. e. to £4:8s. per oz., the £1000 note becomes worth £1100, which is a contradiction in terms and therefore impossible. In order to correct the error that would ensue from this alteration in value of gold, the rate of discount should, I think, be raised to $4\frac{1}{2}$ or 5 per cent. per

annum for the time that gold continues above £4 per oz. For example—

When Gold is £4 $\frac{1}{2}$ oz. the rate of discount should be 4 $\frac{1}{2}$ cent.

„	£4 : 5	„	„	4 $\frac{1}{4}$	„
„	£4 : 10	„	„	4 $\frac{1}{2}$	„
„	£4 : 15	„	„	4 $\frac{3}{4}$	„
„	£5	„	„	5	„

Again, that the bank-note is augmented in value the following instance will show. Suppose that A sells goods for £1000 and draws a six months' bill upon his customer B, which he gets discounted at 4 per cent., by this process A receives £980, but if his bill be discounted at 5 per cent. he receives only £975, hence it is plain that if gold rise in value, the bank-note rises also, because in this case fewer notes obtain the same quantity of goods as before the alteration in the value of gold. When gold begins to recede in price I would begin to lower the rate of discount, but not to less than 4 per cent. per annum at any time. When gold falls to less than £4 per oz. the issuing bank and the bullion-dealers will probably lay in a stock of cheap gold, until the foreigner finds that it is unprofitable to remit gold to England and sends us goods instead; but in this case, he must be contented with a lower price for his goods, whereby

we obtain foreign goods at a low price as well as gold.

Also the circulation is undiminished in amount by the interference of the Foreign Exchanges.

For, though notes due and over due should be presented for gold, when gold is needed, as above supposed, in payment of the balance of trade, and those falling due should be hoarded to obtain gold, and those with some months to run should be exported instead of gold and be due on their return: still, to replace the consequent diminution in number of the notes, *at present irremediable*, I propose that the Bankers should be able to go to the issuing bank and discount their bills, but, by reason of the rise in price of gold, $4\frac{1}{2}$ or 5 per cent. discount should be charged them, 5 per cent. being the maximum rate contemplated.

3rd. Lastly, To provide a necessary amount of gold for the Bank.

It has been estimated that there are in circulation more than 50,000,000 of coined gold occupying the place of £1 notes. Many millions of this gold can be procured for the proposed Bank, by an issue of notes for £3 and £4 each, in addition to the other notes in circulation, the execution of which might be rendered superior to the possibility of forgery. The required amount of gold would thus be raised, and these notes

would remain in circulation for the purposes of trade.

<i>Present Plan requires Gold.</i>			<i>Proposed Plan requires no Gold.</i>		
The payment of £3 requires	Notes 0	Gold 3	£3 requires	Notes 3	Gold 0
„ 4 „	0	4	4 „	4	0
„ 6 „	5	1	6 „	6	0
„ 7 „	5	2	7 „	7	0
„ 8 „	5	3	8 „	8	0
„ 9 „	5	4	9 „	9	0
<hr/> 37	<hr/> 20	<hr/> 17	<hr/> 37	<hr/> 37	<hr/> 0

We see £17 in gold is required to effect the payment of £37, which is a wasteful expenditure of gold. By the above statement it will likewise be seen that all payments of £3 and upwards to *any amount*, may be made without the use of gold.

I propose that the London Bankers, in addition to the facility of obtaining bank-notes at all times at a moderate rate of discount, shall have the privilege of paying into the Bank of Issue all their due bills and checks upon Bankers, to the credit of their several accounts.

I consider that the Provincial Banks should be allowed to issue £3 and £4 notes in order to economise gold and assist the small traders and others. Mr. Huskisson remarks—"The withdrawing of the small notes is a measure suggested by considerations of expediency, which ought to outweigh perhaps the economical advantages which the country derives from the use of them. It is not necessary at present to examine the question in this comprehensive view, although I own that I very much doubt whether country banks might not be allowed to issue notes as low as *two* pounds."

I propose to abandon all restrictions upon banking, with the exception of prohibiting issues within sixty-five miles of London. It has been proved in the evidence before Parliament, that Country Bankers can neither increase nor diminish their issues. Mr. Huskisson further remarks—"It is admitted that the country banks cannot make, or permanently maintain in circulation, any over issues of their paper. On this point there is no difference of opinion in the evidence taken before the Bullion Committee of 1810."

The overtrading fostered by the facilities given by Country Banks has arisen from the non-issuing banks principally and not at all from the country

issues. The exchanges of the Country Bankers among themselves twice a week, and every day at the London Agents, effectually prevent over issues.

We find that, as banking accomodation increases in Scotland, its issues diminish. Such will be the case in this country upon obtaining the additional banking accomodation proposed.

Any interference whatever with Scotland I strongly deprecate: their banking arrangements ought to be left to themselves with the one exception of depositing the amount of one-fourth of their issues in gold, receiving thereon two per cent. per annum interest. In like manner the Provincial Banks. Thus if a failure occurred, five shillings in the pound would be paid immediately; and if the bank (so failing) paid fifteen shillings in the pound, the issue would be paid in full.

At the commencement of the Bank Charter, 1844, the Bank of England reduced their rate of discount from 4 per cent. per annum to $2\frac{1}{2}$ per cent. per annum, and were yet unable to employ their private deposits amounting to 8 millions; thereby not only losing their profit as private bankers, but causing all other bankers to sacrifice their fair profits of banking. The Bank of England will be the greatest gainer by the new system.

The dreadful losses sustained by this country in buying all imports dear and being compelled to sell exports cheap, in order to keep gold to sustain the present imperfect system of currency, have, at last, raised a spirit of inquiry among our merchants which I trust will not subside because smooth times have apparently returned, for the same losses will again be sustained until our trade and commerce go to other nations.

I have, as I think, pointed out a means of supplying an adequate currency clear from the objections which attach to the present system, while I remain, as I have ever been, an advocate of the measure of value in standard gold.

London, 1st July, 1847.

THE END.